Responsible Investment Policy

January 2025

This Responsible Investment Policy details the approach that Lincolnshire Pension Fund (LPF) will follow in fulfilling its commitment to Responsible Investment (RI) and stewardship responsibilities.

1. Introduction

The primary objective of LPF is to pay pensions to scheme members as and when they fall due, whilst keeping contributions from employers and scheme members affordable and stable over the long term. This is achieved by producing superior financial returns whilst not undertaking undue levels of risk and protecting returns over the long term. LPF takes a long-term approach to investing and believes that businesses that are governed well, have a diverse board, and are run in a sustainable way are more resilient, able to survive shocks and have the potential to provide better financial returns for investors. Diversity of thought and experience on boards is significant for good governance, reduces the risk of 'group thinking', leading to better decision making.

Environmental, social and governance (ESG) issues can have a material impact on the value of financial assets and on the long-term performance of investments, and therefore need to be considered across all asset classes to better manage risk and generate sustainable, long-term returns. Well-managed companies with strong governance are more likely to be successful long-term investments. LPF endeavours to be an active owner and steward of its investments, however they are managed. The commitment to responsible investment is communicated in the LPF Stewardship Code compliance statement.

2. What is responsible investment?

Responsible investment (RI) is the practice of incorporating ESG issues into the investment decision making process, to better manage risk and generate sustainable, long-term returns. Financial and ESG analysis together identify broader risks leading to better informed investment decisions and can improve performance as well as risk-adjusted returns.

Investment stewardship includes active ownership, using voting rights, engaging with investee companies, influencing regulators and policy makers, and collaborating with other investors to improve long-term performance. LPF believes that our responsible investment approach and associated activities help identify and manage non-financial risks and so should add value to our investment portfolio over the long-term.

3. Governance and Implementation

The Pensions Committee has an agreed set of Responsible Investment beliefs, which are shown below. These beliefs form the foundation of discussions, and assist decisions, regarding the structure of the Fund and the strategic asset allocation.

Belief 1: Companies with a responsible ESG policy are expected to outperform companies without an ESG policy, over the longer term.

Belief 2: The Committee considers that company engagement, rather than disinvestment, would be the better approach to fulfilling their responsible investment objectives. However, should a company not respond to engagement, disinvestment should be a consideration. Disinvestment on a whole sector basis is not within the Committee's beliefs.

Belief 3: Climate change and the expected transition to a low carbon economy is a long-term financial risk to Fund outcomes.

Belief 4: The Committee should focus on meeting its financial obligations to pay benefits to members. Financial considerations should therefore carry more weight than non-financial considerations.

Belief 5: The Fund's active investment managers should embed the consideration of ESG factors into their investment process and decision making.

Belief 6: The Fund should collaborate with other investors if it could have a positive impact, and also engage with them and investment managers to better understand ESG risks.

Further detail can be found in the Fund's RI Beliefs statement.

The LPF Responsible Investment Policy reflects these beliefs and is aligned to the Border to Coast policy, which is created after collaboration and engagement between the 11 Partner Funds (the Border to Coast policy can be found on their website at www.bordertocoast.org.uk). Implementation and day-to-day oversight of the policy is by the Head of Pensions. The policy is monitored with regular reports to the Pensions Committee. It is reviewed at least annually or whenever revisions are proposed, considering evolving best practice, and updated as necessary.

4. Skills and competency

LPF, where needed, takes proper advice to formulate and develop policy. The Pensions Committee and officers maintain appropriate skills in responsible investment and stewardship through continuing professional development. Where necessary, expert advice is taken from suitable RI specialists to fulfil these responsibilities.

5. Integrating RI into investment decisions

LPF only appoints active managers that consider material ESG factors when analysing potential investments and expects Border to Coast to do the same. Internally managed portfolios by Border to Coast, that LPF invest in, are expected to integrate RI into their decision-making process. ESG factors tend to be longer term in nature and can create both risks and opportunities. As a long-term investor, it is therefore important that they are taken into account when analysing potential investments.

The factors considered are those which can cause financial and reputational risk, ultimately resulting in a reduction in shareholder value. External managers are required to report on how ESG issues are considered and monitored within their mandates. Issues that should be considered include, but are not limited to:

Environmental	Social
• Climate change • Resource and energy management • Water stress • Single use plastics • Biodiversity	• Human rights • Child labour • Supply chain • Human capital • Employment standards • Pay conditions (e.g. the living wage in the UK) • Just transition

Governance	Other
• Board independence • Diversity of thought • Executive pay • Tax transparency • Auditor rotation • Succession planning • Shareholder rights	• Business strategy • Risk management • Cyber security • Data privacy • Bribery and corruption • Political lobbying

Detail on considerations we expect our investment managers and Border to Coast to have in their voting approach are included in the Corporate Governance & Voting Guidelines.

5.1 Climate change

The world is warming, the climate is changing, and the scientific consensus is that this is caused by human activity, primarily the emissions of carbon dioxide (CO_2) from burning fossil fuels. LPF supports this scientific consensus; recognising that the investments we make, in every asset class, will both impact climate change and be impacted by climate change. LPF considers how climate change, the shifting regulatory environment and potential macroeconomic impact will affect its investments, when setting its investment strategy.

Climate change is a systemic risk with potential financial impacts associated with the transition to a low-carbon economy and physical impacts that may manifest under different climate scenarios. Transition will affect some sectors more than others, notably energy, utilities and sectors highly reliant on energy. However, within sectors there are likely to be winners and losers which is why divesting from and excluding entire sectors may not be appropriate. LPF requires appointed managers, including Border to Coast, to consider the impact of climate change in detail.

Risks and opportunities can be presented through a number of ways and include:

- Physical impacts – damage to land, infrastructure and property due to extreme weather events, rising sea levels and flooding
- Technological changes - technological innovations such as battery storage, energy efficiency, and carbon capture and storage will displace old technologies with winners and losers emerging

- Regulatory and policy impact - financial impairment due to policy and regulation changes such as carbon pricing or levies, capping emissions or withdrawal of subsidies.
- Transitional risk - financial risk associated with the transition to a low-carbon economy, also known as carbon risk. It may entail extensive policy, legal, technology, and market changes to address mitigation and adaptation requirements related to climate change, creating investment opportunities as well as risks.
- Litigation risk - litigation is primarily aimed at companies failing to mitigate, adapt or disclose.

LPF expects external managers and Border to Coast to:

- Assess their portfolios in relation to climate change risk where practicable.
- Incorporate climate considerations into the investment decision making process.
- Engage with companies in relation to business sustainability and disclosure of climate risk in line with the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) recommendations.
- Encourage companies to adapt their business strategy in alignment with a low carbon economy.
- Support climate related resolutions at company meetings where they reflect our RI policy.
- Encourage companies to publish targets and report on steps taken to reduce greenhouse gas emissions.
- Use the Transition Pathway Initiative (TPI) toolkit to assess companies and inform company engagement and voting.
- Vote against company Chairs in high emitting sectors where the climate change policy does not meet minimum standards, or where there is no evidence of a positive direction of travel.
- Co-file shareholder resolutions at company AGMs on climate risk disclosure after due diligence, that are deemed to be institutional quality shareholder resolutions consistent with our RI policies.
- Monitor and review their fund managers in relation to climate change approaches and policies.
- Participate in collective initiatives collaborating with other investors including other pools and groups such as LAPFF.
- Engage with policy makers regarding climate change through membership of the Institutional Investor Group on Climate Change (IIGCC).
- Report on the actions undertaken with regards to climate change on an annual basis.

6. Stewardship

As a share owner, LPF has a responsibility for effective stewardship of the companies it invests in, albeit indirectly through mandates with fund managers, including Border to Coast. LPF requires its managers to practice active ownership through voting, where possible, monitoring companies, engagement and litigation, where appropriate. As a responsible shareholder, LPF is committed to being a signatory to the UK Stewardship Code/ LPF were accepted as a signatory to the new code in March 2020 and have maintained our signatory status. All external fund managers and Border to Coast are expected to be signatories or comply with international standards applicable to their geographical location. LPF expects its managers to evidence their active stewardship regardless of the asset class they manage.

Responsible investment and ESG considerations are specifically referenced when conducting fund manager due diligence. They are factored into the selection and appointment process and included in investment management agreements. Managers are expected to include ESG issues within their investment decision making process and take into account both financial and “extra-financial” considerations. Managers are required to report back to LPF regarding their RI activities on a regular basis.

6.1 Voting

Voting rights are an asset and LPF will ensure its rights are exercised carefully to promote and support good corporate governance principles. All external managers are required to aim to vote in every market in which they invest. LPF encourages managers to vote in line with its voting policy, which is aligned to the Border to Coast voting policy. A copy of our Corporate Governance and Voting Policy can be found on our website. For assets invested with Border to Coast, LPF requires Border to Coast to vote in line with the collaborative voting policy developed with the Partner Funds which can be viewed on Border to Coast's website.

6.2 Engagement

The best way to influence companies is through engagement; therefore, LPF will not divest from companies principally on social, ethical or environmental reasons. As responsible investors, the approach taken is to influence companies’ governance standards, environmental, human rights and other policies by constructive shareholder engagement and the use of voting rights. In addition to Border to Coast, the services of LAPFF are used to identify issues of concern.

Meeting and engaging with companies is an integral part of the investment process. As part of our stewardship duties, we require our external mangers to regularly monitor investee companies and take appropriate action if investment returns are at risk, which would include directly engaging with companies. Managers are required to report such engagement to LPF on a regular basis. LPF, along with the other ten partner funds and Border to Coast, are members of the Local Authority Pension Fund Forum (LAPFF). Engagement takes place with companies on behalf of members of the Forum.

LPF seeks to work collaboratively with other like-minded investors and bodies in order to maximise its influence. LPF expects managers to engage with investee companies and bond issuers as part of their mandate on our behalf and in alignment with our RI policy.

Border to Coast, as LPF’s main investment manager, has a number of engagement themes that form part of their RI Policy that is approved by the LPF Pensions Committee, and is available on their website.

6.3 Escalation

LPF believes that engagement and constructive dialogue with companies is more effective than excluding companies from the investment universe. However, if engagement does not lead to the desired result, escalation may be necessary. LPF expects its appointed investment managers to monitor engagement activities and where progress is not made within a reasonable timeframe, then to escalate the process. This could be addressed in several ways: by conducting collaborative engagement with other institutional shareholders; registering concern by voting on related agenda items at shareholder meetings; attending a shareholder meeting in person; making a statement publicly pre-declaring the voting intention; and filing/co-filing a shareholder resolution. Where the investment case has been fundamentally weakened, LPF expects its appointed investment managers to sell the company's shares.

6.4 Exclusions

LPF believes that using influence through ongoing engagement with companies, rather than divestment, drives positive outcome. It requires appointed managers, including Border to Coast, to consider exclusions carefully. LPF would not expect appointed managers to divest or exclude entire sectors. However there may be specific instances when appointed managers will look to sell or not invest in some industries based on investment criteria, the investment time horizon, and the likelihood for success in influencing company strategy and behaviour. These decisions will be based on the associated material financial risk of a company's business operations and whether the appointed manager has concerns about the company's long-term viability. These are the key financial risks against which a decision should be assessed:

- regulatory risk
- litigation risk
- reputational risk
- social risk
- environmental risk

LPF requires its managers to report their exclusion policy, including reasons for such exclusions, and the monitoring process for potential reinstatement.

6.5 Litigation

Where LPF has held securities which are the subject of individual or class action securities litigation, it will, where appropriate, participate in such litigation. LPF has appointed Institutional Protection Services (IPS) to monitor and recommend securities litigation where LPF may have a claim, and process any claims considered relevant by LPF through their partner lawyers. LPF use a case-by-case approach to determine whether or not to participate in a class action after having considered the risks and potential benefits.

7. Communication and reporting

LPF is transparent about its RI activities and keeps beneficiaries and stakeholders informed. This is done by making publicly available RI and voting policies; publishing its managers RI activities and summaries of voting in its quarterly Committee reports through Lincolnshire County Council's website; and publishing its Stewardship Code Statement.

8. Conflicts of interest

LPF has a conflict of interest policy which covers any potential conflicts of interest between itself and any service providers, which are applied to identify and manage any conflicts of interest.